

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 03 NEW DELHI 004308

SIPDIS

E.O. 12958: DECL: 06/08/2015

TAGS: [ELAB](#) [ECON](#) [EINV](#) [PGOV](#) [IN](#)

SUBJECT: INDIAN LABOR LEADERS OPPOSE UPA PLANS FOR PUBLIC OFFERING OF BHEL STOCK

REF: A. NEW DELHI 994

[1](#)B. 04 NEW DELHI 6463

Classified By: Charge Bob Blake for Reasons 1.4 (B, D)

[1](#)1. (C) Summary: Leftist labor unions and the UPA's communist allies have stepped up their opposition to the GOI's announced plans for a public offering of 10 percent of Bharat Heavy Electricals Limited (BHEL), which will raise approximately \$400 million dollars for the National Investment Fund (NIF). The sale indicates a renewed UPA drive for the sale of government assets within the scope of the Common Minimum Programme (CMP), but the Left and Labor remain opposed. The Left's labor federation, the Center of Indian Trade Unions (CITU) is, along with other labor unions, organizing protests against the planned sale. We expect the protests to have little impact, indicating that labor's ability to stop disinvestment is weakening, which will pave the way for future public offerings. End Summary.

A Blue Chip Stock for the Public

[1](#)2. (U) On May 26, the UPA government announced plans to sell 10 percent (24 million shares) of the public sector Bharat Heavy Electricals Limited (BHEL), India's largest manufacturer of power-plant equipment. This move is controversial because it demonstrates UPA's desire to move forward with the sale of government assets (or "disinvestment in the local parlance) despite opposition from its Communist coalition allies, who oppose the sale of "profitable" public sector undertakings (PSUs). BHEL is a profit-making PSU with market cap of \$4.8 billion. Its profit increased 52 percent in the year ended March 31, and sales growth for the current fiscal year is predicted to reach 10 percent. Currently, shareholders include the government (68 percent), foreign institutional investors (23 percent), other institutional investors (7 percent) and retail investors (2 percent). The sale would reduce government holdings to 58 percent.

[1](#)3. (U) Fund managers expect strong demand for BHEL shares due to the company's strength, India's increasing demand for power, and successful past public offerings. Finance Minister P Chidambaram predicted that the response would be similar to the sale of 10.5 percent of National Thermal Power Corporation (NTPC) of October 2004, which raised a total of \$1.15 billion and attracted 3.6 times as many bids as offered shares (Ref B).

Revenues to the National Investment Fund

[1](#)4. (U) The GOI plans to place revenues from the BHEL sale (expected to be approximately \$400 million) in the National Investment Fund (NIF), which is independent of the Finance Ministry and separated from the budgetary process. Public sector fund managers will manage the NIF, the earnings of which will fund health and education programs (75 percent) and revive viable PSUs (25 percent) (Ref A). The UPA hoped to reduce opposition from its Leftist allies by having the revenues of the sale accrue to the NIF rather than the budget.

A Renewed Interest in Disinvestment

[1](#)5. (U) Some analysts believe the BHEL sale indicates a UPA desire to move forward with public offerings of shares of other PSUs, which was stalled during its first year in power due to Communist opposition. The BHEL sale will be only the second such sale of the UPA government. The "Wall Street Journal" cited Chidambaram's hope to raise up to \$1.61 billion during the current fiscal year (April 1-March 31) through sales of shares in other PSUs, potentially including the Shipping Corporation of India and car manufacturer Maruti Udyog Ltd., among others. In contrast, the BJP-led NDA government raised \$3.2 billion from such sales in its last year in power in 2003-04.

[1](#)6. (U) Another GOI goal from this sale is to encourage small retail investors to enter the equity market. For this reason, the stock will be split and 15 percent of the shares sold (1.5 percent of total equity) will be reserved for employees. Sale details such as pricing, timing, and the ratio of the stock split have yet to be determined.

Ideological Opposition from the Left/Labor

17. (U) Opposition from the Communists forced the government to delay the BHEL disinvestment until the fiscal year began on April 1 (Ref A). The Communist parties denied Chidambaram's public statement that they had been consulted in the decision and asked the government to reconsider its decision to sell BHEL equity. They asserted that the sale was "directly contradictory" to the CMP. In a press release, the CPM-affiliated CITU denounced the "retrograde move" of "creeping privatization" (i.e. the incremental sale of government shares of PSUs). Although the Communists predicted widespread protest in response to the sale, our sources do not foresee that they will bring down the government over the BHEL case.

18. (C) In a June 1 meeting with Poloff, two CITU Secretaries denounced the UPA for embracing the idea that "privatization is a solution for everything," calling it a "loot of public money," especially for efficient, profit-making PSUs like BHEL. They slammed the GOI plan to place the proceeds of the sale in the NIF as "sugarcoating," warning that the UPA plans to use the NIF to encourage disinvestment by giving the false impression that no money would be spent on health or education programs without selling government assets. In contrast, representatives of the Congress-affiliated Indian National Trade Union Congress (INTUC) welcomed the sale, as long as the government remained BHEL's majority shareholder.

19. (C) CITU have invited all trade unions to attend a meeting on June 10 to devise appropriate next steps, which it anticipates will result in a two-phase action plan. The first phase will call on the GOI to withdraw the sale, followed by national strikes if the government does not agree.

Additional Concerns

10. (C) Aside from its ideological opposition to privatization, Indian organized labor has other concerns stemming from past experiences with privatization. First, it is convinced that the private sector will dismantle public sector enterprises in rural areas where 80 percent of Indians live, due to poor rural infrastructure and the villagers' low purchasing power. They fear that without a strong public sector in these areas, the rural-urban divide will become more pronounced. Secondly, they believe India's social safety net is not strong enough to support the workers who will inevitably lose their jobs or benefits. Third, they fear that the government will not receive fair value for the shares it sells.

Labor Can Slow, But Not Stop, Disinvestment

11. (C) T. Dyvadheenam, from the International Metalworkers' Federation, admitted to us that while trade unions and the Left are ideologically opposed to all disinvestment, they will likely be unable to stop it. In light of this, he said, trade unions and the Communists must work with the government to negotiate the best deal for workers. For example, when shares are reserved for workers, they should negotiate a share price that is lower than market value, so that workers can afford the shares. There is no indication that this will happen in the BHEL sale.

Comment

12. (C) Communist claims to the contrary, the BHEL sale does fall within the scope of the CMP, while few labor leaders believe Labor is strong enough to stop limited privatization efforts such as these. The Left's public outcry is a political necessity to appeal to its constituents. The predicted widespread protests have not materialized, though some demonstrations at BHEL plants have taken place. The level of response to a potential call for national strikes may reveal to what extent the Indian labor movement can constrain future public offerings of PSUs. Placing revenues in the NIF will not be sufficient to reduce the Left and labor's opposition to future privatization. In addition, the government will have to address concerns about India's poor infrastructure and improve the social safety net for workers.

BLAKE